Teachers Retirement Savings Scheme

NEWSLETTER - JANUARY 2016

Welcome to the latest newsletter for the Teachers Retirement Savings Scheme, in which you'll find the latest news and information about your scheme.

SCHEME NEWS

We are always looking for ways to improve the Scheme for the benefit of its members. Outlined below are several changes that have recently been made, or are close to being implemented:

Providing confirmation of identity

Before requesting a withdrawal from the Scheme, you must have provided confirmation of your identity and residential address. We highly recommend that you arrange this sooner rather than waiting until you are applying for the withdrawal. A new Confirmation of identity and residential address guide and form will be available on the Scheme website in the next few weeks.

Scheme information booklet

Also available shortly is a revised Teachers Retirement Savings Scheme Information Booklet, which will provide up-to-date information about the Scheme and member benefits.

Regular withdrawals

If you are aged 55 or older, you are now able to make regular monthly or fortnightly withdrawals from your Scheme accounts. The Regular withdrawals fact sheet in Documents & forms contains detailed information about this facility.

SCHEME RETURNS

The following table shows the indicative returns for each of the Scheme's funds for the seven months ending 31 January 2016 and the 12 months to that date, along with a comparison with last Scheme year returns.

	Indicative returns after tax and expenses		
	Scheme year (7 months to 31 January 2016)	12 months to 31 January 2016	12 months to 30 June 2015
Cash Fund	1.3%	2.5%	2.7%
Stable Fund	1.1%	2.7%	7.0%
Balanced Fund	-1.4%	1.2%	10.2%
Growth Fund	-3.1%	0.5%	13.4%

Note: These returns, net of tax and expenses, are indicative only. The actual returns you receive may differ from those shown as the timing and amounts of your contributions may impact on your actual returns. Past performance should not be relied on as an indicator of future returns

THE INVESTMENT ENVIRONMENT

A very tough September quarter...

Global markets displayed real signs of uncertainty in the September quarter, with investors particularly concerned about impending headwinds facing the world economy. The slowdown in the Chinese economy continued to keep pressure on commodity prices, leading to a knock-on effect for global trading activity. This, together with growing uncertainty about US interest rate increases, caused a spike in market volatility.

Equity markets provided their worst performance in nearly four years, falling 10% as the US Federal Reserve (the Fed) again delayed its much-anticipated rates rise. New Zealand shares also lost ground, but to a much lesser extent than their offshore counterparts, with local market protected by investor support for income-earning shares. The Reserve Bank cut rates twice during the quarter (to 2.75%), with further cuts anticipated as the economy shows signs of weakening.

...followed by a strong rebound in October...

A new month was enough to create a change of heart among investors. After the sharp losses on global share markets in the September quarter, developed markets regained almost 8% during October. Even emerging markets made solid ground while, locally, New Zealand shares were up 7% in a broad-based recovery.

Despite ongoing concerns, markets were helped along by the European Central Bank indicating it may extend its quantitative easing programme and cut interest rates.

Global bond yields crept higher as the Fed kept rates unchanged, while New Zealand bonds also moved higher after the Reserve Bank left interest rates unchanged.

...and a steady November...

Globally, markets were rather more subdued during November. There was an initial fall in reaction to the Paris terrorist attacks, but overall most share markets, including New Zealand's, gained some modest ground. Ongoing anticipation over what the Federal Reserve will do with US interest rates in December continued to be the main focus of attention.

...while anticipation turned to action in December...

The US Federal Reserve increased the policy rate by 0.25% in December, the first rate increase since 2006. The move spurred a temporary rally as markets absorbed the, by then widely anticipated, rate hike. However, equity markets quickly came under pressure over growth concerns in China and another slide in oil prices.

...and share markets fell sharply in January

Bad news out of China and a further weakening in the oil price saw global share markets make the worst start to the calendar year since 2011.

The lower oil price has put a strain on oil exporters such as Venezuela and Russia and has made the once booming US 'frackers' unprofitable.

The outlook is...

Mercer expects global equities to generate decent, if unspectacular returns in 2016. But the path is likely to be somewhat bumpy as uncertainty over global growth prevails. In much the same way, the outlook for New Zealand remains in the balance. The lower New Zealand dollar, low interest rates, strong migration and tourism are all positives offsetting lower dairy prices. As a result, we can expect some more ups and downs from markets, but no more than normal.

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PLANNING FOR YOUR RETIREMENT
– HOW MUCH WILL BE ENOUGH?

How much money you will require in retirement may depend on your expected lifestyle 'running costs'...

You may be content with a 'no-frills' lifestyle, which costs less by providing a more basic standard of living that doesn't allow for many, if any, luxuries. On the other hand, maybe you want the 'choice' of a better (though by no means extravagant) level of retirement. This means having enough income to allow you to include some luxuries, such as a higher level of medical insurance, a better-quality car or being able to help towards your grandchildren's education costs.

There could also be a point in between no frills and choice that you are comfortable with. Even when classifying the essentials, such as food, electricity and transport, there is scope for you to decide how much you want to spend over and above what is considered necessary in each of these categories.

A major influence on having the ability to select between no frills and choice is how far you are from retirement. If you're in your 30s or 40s, for example, you have a much longer savings timeframe, perhaps up to 30 years. However, the ability to put more aside for those extras may be more difficult if you are already in your 50s.

With so many variables, it is difficult to work out the difference between the costs of the two retirement lifestyle options. However, as an indication, a recent survey* of retirement expenditure (based on a one-person household in a metropolitan area) indicated that, on average, a no-frills lifestyle would cost around $490 a week, compared with $754 for a choice lifestyle.

The survey also suggests that only no-frills retirees living in major cities could manage on New Zealand Superannuation by itself.

Even once you have worked out what sort of lifestyle you want, establishing the actual 'running' costs can also be a challenge. You could seek the guidance of an authorised financial adviser, while the Sorted website, sorted.org.nz/calculators, has a number of very useful calculators to help you establish what your retirement is actually going to cost you.

Sorted includes a planner that allows you to work out how much income you'll need and what you must do, savings-wise, to get there. It allows for inflation, including calculating how much your current superannuation and other savings will be worth when you retire.

A useful tip:

Identify something you'd particularly like to do after you retire – perhaps a special overseas trip or some house alterations. Work out what you think it will cost (no need to be too precise) and set a separate savings goal to ensure you can afford to pay for it when the time comes.

No matter what your age, it is worth weighing up sooner rather than later what is likely to be necessary to you in retirement and what is seen as nice to have, but can be classed as optional.

*NZ Retirement Expenditure Guidelines 2015, produced for Workplace Savings NZ by the Fin-Ed Centre, Massey University.

TO FIND OUT MORE ABOUT ANYTHING MENTIONED IN THIS NEWSLETTER

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